

VZCZCXRO3843  
RR RUEHCD RUEHDBU RUEHFL RUEHLA RUEHMRE RUEHSR  
DE RUEHSK #1528/01 3561225  
ZNY CCCCC ZZH  
R 221225Z DEC 05  
FM AMEMBASSY MINSK  
TO RUEHC/SECSTATE WASHDC 3505  
INFO RUCNOSC/ORGANIZATION FOR SECURITY COOPERATION IN EUROPE  
RHMFISS/HQ USEUCOM VAIHINGEN GE  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK

C O N F I D E N T I A L SECTION 01 OF 03 MINSK 001528

SIPDIS

SIPDIS

E.O. 12958: 12/21/15

TAGS: [ECON](#) [PGOV](#) [BO](#)

SUBJECT: World Bank Rep Skeptical of Belarus' Continued  
Economic Growth

Classified by Ambassador George Krol for Reasons 1.4  
(B,D)

Refs: A) Minsk 1145, B) Minsk 1159, C) Minsk 1507

11. (C) Summary: World Bank Permanent Representative Vladimir Voronin discussed with DCM and Pol/Econ Chief the general state of the Belarusian economy, stressing the opportunity for Belarus to make badly needed economic reforms is now. Referring to the World Bank's recently published economic assessment of Belarus, Voronin described an economy that currently enjoys strong growth, but is highly susceptible to looming external shocks, which include Russia's likely decision to raise significantly the price of gas for Belarus in 2007. The World Bank representative noted that key GOB officials are aware of the economy's unsustainability, but emphasized that reforms would only be implemented after the 2006 presidential elections. End Summary.

Window for Reform Currently Exists in BelarusQ  
-----

12. (SBU) On December 14, World Bank Country Representative Vladimir Voronin told DCM and Pol/Econ Chief that he personally and purposefully chose the title of the Bank's recently published annual report, "Belarus: Window of Opportunity to Enhance Competitiveness and Sustain Economic Growth." The report, which was released on November 8, assessed the growth trends in the country's economy since 1996, reviewed the evidence of the accumulated challenges and risks within the existing growth patterns, and provided recommendations aimed at strengthening growth sustainability. The World Bank concluded that economic growth for the past nine years has been impressive, but maintaining the current growth strategy would lead to economic decline, and thus recommended a reorientation of GOB policies toward ensuring a better business environment and a smaller government. Voronin stressed that the Lukashenko regime has the resources to make the needed structural reforms. He cited as proof steady and sizable growth rates in the economy (on average 6.6 percent since 1996), a significant increase in foreign currency reserves, and a considerable increase in personal incomes.

But the Window is Closing Fast  
-----

13. (SBU) Voronin, however, pointed out the cornerstone of Belarus' growth remains subsidized energy from Russia and the profit Belarus receives from re-exporting oil and oil products at world market rates. Voronin listed a significant increase in the price of gas for Belarus and

other developments that will likely weaken Belarus' economy in the next few years.

#### Gas Prices For Belarus Certain To Rise, And Soon

-----

¶4. (SBU) The World Bank permanent representative stated that although Belarus most likely managed to secure the same natural gas price for 2006 that it received this year Q approximately USD 47 per thousand cubic meter Q Belarus' gas price for 2007 "will be completely different." Voronin speculated Russia's Gazprom will supply gas to Belarus in 2007 for no less than USD 120 per tcm. He explained that it has become economically and politically unfeasible for Belarus to continue receiving gas for significantly below world market rates. Voronin cited as an example Gazprom's supply of gas to Smolensk, a Russian city located near the border between Russia and Belarus, in 2006 at USD 52 per tcm, while Belarus, a foreign country, will continue to enjoy receiving gas at USD 47 per tcm.

¶5. (U) Comment: The price of gas for Belarus was one of the topics of discussion between Presidents Lukashenko and Putin in Sochi on December 15. Based on statements by Lukashenko and Gazprom leaders following the Sochi meeting, Belarus will most likely continue to receive gas for the same price as this year. Echoing earlier press statements made by Gazprom Chairman Aleksei Miller, Gazprom Deputy Chairman Aleksandr Medvedev said on December 20 that Belarus in 2006 will receive gas for USD 47 because: 1) Belarus and Russia are building a Union State, 2) Belarus is the only country in which Gazprom owns a gas transit line, and 3) negotiations have resumed on Gazprom acquiring control of Belarusian gas transit company Beltranzgas.

MINSK 00001528 002 OF 003

Although Lukashenko has successfully managed to keep Beltranzgas just out of arm's reach of Gazprom in the past, this issue undoubtedly was raised again in Sochi. End Comment.

¶6. Voronin pointed out that the Belarusian economy could only handle a rise in gas prices up to USD 90 per tcm. Beyond this price, Voronin argued the entire economy would be significantly affected. Thus, as early as 2007 the Belarusian economy would look markedly different.

#### Bankrolling Unprofitable Industries Becoming More Difficult

-----

¶7. (SBU) Voronin explained that the money making industries in Belarus are limited to oil processing and the sale of petrochemicals, fertilizers (also heavily dependent on cheap gas), timber, fibers, and textiles. Together, these goods and services account for nearly 70 percent of the fiscal revenue for the government. Voronin stressed that the Lukashenko regime uses the 20 to 50 state companies that comprise the above industries to subsidize the loss making industries. He noted that such an arrangement is becoming unsustainable for the government.

#### Loss of Competitiveness in Main Export Market

-----

¶8. (SBU) Voronin also noted that in 2005 Belarus' exports to Russia, its main trading partner, decreased by 10 percent. Despite GOB claims the decrease is attributed to complications arising from changes made to the VAT (ref A), Voronin argued that the Russian market has found Belarusian goods less attractive. He explained that the loss of competitiveness is mainly due to rising Belarusian wages and the superior quality of Russian goods and increased sophistication and buying power of Russian consumers.

Voronin noted that Belarus has significantly increased its trade with EU countries, but again these goods are concentrated in a few sectors.

#### Russia's Accession into WTO

-----

¶9. (SBU) Voronin said that despite GOB claims to the contrary (ref B), Russia's entry into the WTO, which Russia hopes to achieve in 2006, will have disastrous consequences for the Belarusian economy. In the WTO regulations, Russia will likely be forced to suspend providing Belarus subsidized energy. Moreover, the special trading arrangements between Belarus and Russian cities will be cancelled. Voronin agreed that Russia will likely be granted permission to adopt a phased approach to removing preferable energy prices for Belarus, but he remains convinced that the Belarusian economy will be adversely affected soon after Russia joins WTO.

#### GOB Takes World Bank Conclusions SeriouslyQ

-----

¶10. (C) Voronin was pleased to report that his World Bank report did not fall on deaf ears. Several GOB officials have told him that they recognize the need for immediate economic reform and they stressed the regime is willing to take some steps to reduce the government's involvement in the economy. Specifically, the government plans to increase consumer costs for "communal services" (gas, electricity, and water supply for homes) from 60 percent to 80 percent of actual costs. Moreover, the GOB is considering cutting back on subsidies to loss making industries. Voronin noted the government is working with the International Finance Corporation (IFC) to obtain reliable information on the state of affairs of the loss making industries.

#### QBut Only After the Presidential Elections

-----

¶11. (C) GOB officials have made clear to Voronin that the regime will only take action on needed reforms once the 2006 presidential elections have been held and Lukashenko is (presumably) elected for a third term. (Note: At the time of this conversation, it was still assumed that elections would take place in the summer. On December 16, the GOB unexpectedly announced that the elections will be

MINSK 00001528 003 OF 003

held on March 19, 2006, several months prior to the expected election date. See ref C for details.) Voronin posited that Lukashenko is not willing to take the risks of losing popular support in the run up to the elections, and would be in a better position to weather criticism from the masses once he is guaranteed a third term.

#### Reluctant To Improve Investment Climate

-----

¶12. (C) When asked about possible GOB plans to attract foreign investment, Voronin confirmed the regime was not prepared to make any improvements in this area in the near future. Senior economic officials in the government have told Voronin that inviting foreign investment is a political decision and thus far Lukashenko has not demonstrated much willingness to budge on this issue. Voronin noted, however, that recently he was asked by the administration to resubmit his papers on steps Slovakia, Hungary, and other Central European countries took to privatize their state-run oil transit companies. He also said the GOB was considering allowing foreign companies to

acquire controlling interest in the two largest state-owned banks.

Comment

-----

¶13. (C) Voronin seemed thoroughly convinced that Belarus' nine-year performance of strong economic growth will soon be coming to an end. The impact of significantly increased gas prices for Belarus would indeed seriously impair the regime's ability to continue such policies as artificially increasing wages, pensions, and other social benefits, propping up unprofitable state-run industries, and investing resources in expensive rural development programs. However, several analysts have told us the Belarusian economy will experience the greatest shock when the world market price for oil drops or when Russia chooses not to sell to Belarus at discounted prices.

¶14. (C) Although it was encouraging to hear that the regime may begin to implement necessary economic reforms following the presidential elections, Lukashenko's continued reluctance to move on attracting foreign investment remains an issue of serious concern. Given Belarus' relative lack of natural resources, the most realistic engine for sustained economic growth for this country continues to be foreign direct investment. Without it, the economy will likely never reach its full potential.

Krol